

# Annual Report

Credit Suisse (Schweiz) AG

2016



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Credit Suisse (Schweiz) AG

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Publications referenced in this report, whether via website links or otherwise, are not incorporated into this report.

The English language version of this report is the controlling version.

In various tables, use of “–” indicates not meaningful or not applicable.

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# Report of the Statutory Auditor

To the General Meeting of Shareholders of Credit Suisse (Schweiz) AG, Zurich

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## Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the accompanying financial statements of Credit Suisse (Schweiz) AG, which comprise the balance sheet, income statement, statement of changes in equity and notes for the period from August 1 to December 31, 2016.

### *Board of Directors' Responsibility*

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the Bank's articles of association. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements for the period from August 1 to December 31, 2016 comply with Swiss law and the Bank's articles of association.



**Report on Other Legal Requirements**

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the Bank's articles of association. We recommend that the financial statements submitted to you be approved.

KPMG AG

A handwritten signature in black ink, appearing to be 'R. Dicht', written over a light blue horizontal line.

Ralph Dicht  
*Licensed Audit Expert*  
*Auditor in Charge*

A handwritten signature in black ink, appearing to be 'N. Edmonds', written over a light blue horizontal line.

Nicholas Edmonds  
*Licensed Audit Expert*

Zurich, March 24, 2017

# Financial statements

## Statement of income

	Reference to notes	
Financial year from August 1 to December 31		<b>2016</b>
<b>Statement of income (CHF million)</b>		
Interest and discount income		876
Interest and dividend income from trading activities		14
Interest and dividend income from financial investments		1
Interest expense		(122)
<b>Gross income from interest activities</b>		<b>769</b>
(Increase)/release of allowance for default risks and losses from interest activities		(42)
<b>Net income from interest activities</b>	4	<b>727</b>
Commission income from securities trading and investment activities		612
Commission income from lending activities		63
Commission income from other services		172
Commission expense		(155)
<b>Net income from commission and service activities</b>		<b>692</b>
<b>Net income/(loss) from trading activities and fair value option</b>	5	<b>189</b>
Income/(loss) from the disposal of financial investments		1
Income from real estate		1
Other ordinary income		179
Other ordinary expenses		(2)
<b>Net income from other ordinary activities</b>		<b>179</b>
Personnel expenses	6	538
General and administrative expenses	7	821
<b>Total operating expenses</b>		<b>1,359</b>
Impairment of participations, depreciation and amortization of tangible fixed assets and intangible assets		304
Increase/(release) of provisions and other valuation adjustments, and losses	8	34
<b>Operating profit</b>		<b>90</b>
Taxes	9	(20)
<b>Net profit</b>		<b>70</b>

A comparative statement of income has not been presented as Credit Suisse (Schweiz) AG did not generate any material income and expenses during the prior financial reporting period from January 1 to July 31, 2016. Refer to "Note 2 – Accounting and valuation principles" for further information.

**Balance sheet**

end of	Reference to notes	2016
<b>Assets (CHF million)</b>		
Cash and other liquid assets		37,363
Due from banks		5,555
Securities borrowing and reverse repurchase agreements	10	14,066
Due from customers	11	28,646
Mortgage loans	11	112,261
Trading assets	12	5,761
Positive replacement values of derivative financial instruments	13	3,597
Financial investments	14	270
Accrued income and prepaid expenses		321
Participations		112
Tangible fixed assets		100
Intangible assets		3,231
Other assets	15	1,752
<b>Total assets</b>		<b>213,035</b>
Total subordinated receivables		66
of which receivables subject to contractual mandatory conversion and/or cancellation		–
<b>Liabilities and shareholders' equity (CHF million)</b>		
Due to banks		19,084
Securities lending and repurchase agreements	10	3,954
Customer deposits		160,708
Trading liabilities	12	640
Negative replacement values of derivative financial instruments	13	938
Liabilities from other financial instruments held at fair value	12, 18	440
Medium-term notes		534
Bonds and mortgage-backed bonds		10,179
Accrued expenses and deferred income		1,167
Other liabilities	15	604
Provisions	19	67
<b>Total liabilities</b>		<b>198,315</b>
Share capital	20	100
Legal capital reserves		14,550
of which capital contribution reserves		14,550
Retained earnings		0
Net profit		70
<b>Total shareholders' equity</b>		<b>14,720</b>
<b>Total liabilities and shareholders' equity</b>		<b>213,035</b>
Total subordinated liabilities		8
of which liabilities subject to contractual mandatory conversion and/or cancellation		–

A comparative balance sheet has not been presented as Credit Suisse (Schweiz) AG did not have any material balance sheet positions as of the end of the prior financial reporting period on July 31, 2016. Refer to "Note 2 – Accounting and valuation principles" for further information.



## Off-balance sheet transactions

end of	2016
<b>Off-balance sheet transactions (CHF million)</b>	
Contingent liabilities	20,862
Irrevocable commitments	8,615
Obligations for calls on shares and additional payments	47

### Off-balance sheet transactions

Contingent liabilities to other bank entities include guarantees for obligations, performance-related guarantees and letters of comfort issued to third parties. Contingencies with a stated amount are included in the off-balance sheet section of the financial statements. In some instances, the exposure of Credit Suisse (Schweiz) AG (CS Schweiz) is not defined as an amount but relates to specific circumstances such as the solvency of subsidiaries or the performance of a service.

### Joint and several liability

On November 20, 2016, Credit Suisse AG (CS AG) transferred its universal bank business for Swiss customers, comprising a significant part of the Swiss Universal Bank division and parts of STS Trading, a business area providing sales and trading services, to CS Schweiz. This business transfer was executed through a transfer of assets and liabilities in accordance with the Swiss Merger Act. By operation of the Swiss Merger Act, CS AG assumed a three-year statutory joint and several liability for obligations existing at the transfer date on November 20, 2016 and which were transferred to CS Schweiz.

With respect to transferred employees, the employment relationship and all attendant rights and obligations passed from CS AG to CS Schweiz as of the day of the transfer, unless the employee refused such transfer. Where the transferred relationship was governed by a collective employment contract, CS Schweiz is obliged to abide by it for one year unless it expires or is terminated sooner. In the event that an employee refused the transfer, the employment relationship ends on expiry of the statutory notice period and until then, CS Schweiz and the respective employee are obliged to perform the contract. CS AG and CS Schweiz are jointly and severally liable for claims of employees arising under employment contracts and which fall due up to the date upon which the employment relationship could ordinarily have been terminated or was terminated by the employee, if the employee declined to transfer to CS Schweiz.

The transfer of assets also included assets at a carrying value of CHF 11,278 million as of December 31, 2016, which are pledged under the covered bonds program of CS AG and for which the related liabilities of CHF 7,971 million as of December 31, 2016 are reported by CS AG. As of December 31, 2016, the contingent liabilities of CS Schweiz under the covered bond program were CHF 7,971 million and reflected in the table "Off-balance sheet transactions". CS Schweiz also entered into a contractual arrangement under which it assumed joint and several liability with respect to liabilities of CS Schweiz arising in connection with CS Schweiz's roles under the covered bonds program.

CS Schweiz is a member of Credit Suisse Group AG's Swiss VAT group and therefore subject to joint and several liability according to Art. 15 para. 1 lit. c of the Swiss VAT Act.

### Deposit insurance guarantee program

Deposit-taking banks and securities dealers in Switzerland are required to ensure the payout of privileged deposits in the case of specified restrictions or compulsory liquidation of a deposit-taking bank, and they jointly guarantee an amount of up to CHF 6 billion. Upon occurrence of a payout event triggered by a specified restriction of business imposed by the Swiss Financial Market Supervisory Authority FINMA (FINMA) or by the compulsory liquidation of another deposit-taking bank, the participating bank's contribution will be calculated based on its share of privileged deposits in proportion to total privileged deposits. The first time FINMA will determine the share of CS Schweiz in the deposit insurance guarantee program will be for the period commencing July 1, 2017 to June 30, 2018. Until June 30, 2017, the deposit insurance guarantee related to deposits transferred to CS Schweiz remains with CS AG and is reported as a contingent liability of CS AG.

**Statement of changes in equity**

	Share capital	Legal capital reserves	Retained earnings	Net profit	Total shareholders' equity
<b>2016 (CHF million)</b>					
<b>Balance as of August 1</b>	<b>20</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>20</b>
Increase/(reduction) of capital	80	–	–	–	80
Capital contributions	–	14,550	–	–	14,550
Net profit	–	–	–	70	70
<b>Balance as of December 31</b>	<b>100</b>	<b>14,550<sup>1</sup></b>	<b>0</b>	<b>70</b>	<b>14,720</b>

<sup>1</sup> Includes capital contribution reserves of CHF 14,550 million. Distributions from capital contribution reserves are free of Swiss withholding tax and are not subject to income tax for Swiss resident individuals holding the shares as a private investment.

**Capital increase**

On October 19, 2016, CS Schweiz held an Extraordinary General Meeting, at which shareholders approved a capital increase of CHF 80 million by issuing 80 million new shares at CHF 1.00 nominal value, fully paid. The proceeds were intended to be used for the acquisition of assets and liabilities from CS AG.

► Refer to "Note 20 – Composition of share capital, conversion and reserve capital" for further information.

**Capital contribution**

In connection with the transfer of the universal bank business for Swiss customers from CS AG to CS Schweiz on November 20, 2016, CS Schweiz recognized a capital contribution of CHF 14,550 million in legal capital reserves, which included the surplus of CHF 11,025 million between the value of net assets transferred and the related consideration paid as well as intangible assets of CHF 3,525 million. The intangible assets reflected the value of the client base and goodwill related to the business transferred. These intangible assets are amortized over a period of five years. For the five-month period of 2016, CS Schweiz recorded an amortization of CHF 294 million in the statement of income.

► Refer to "Off-balance sheet transactions" and to "Business developments" in Note 1 – Business activities, developments and subsequent events for further information on the business transfer.

# Notes to the financial statements

## 1 Business activities, developments and subsequent events

### Business activities

Credit Suisse (Schweiz) AG (CS Schweiz) is a Swiss bank incorporated as a joint stock corporation (public limited company) with its registered office in Zurich, Switzerland.

As of December 31, 2016, CS Schweiz had total assets of CHF 213.0 billion and shareholder's equity of CHF 14.7 billion.

CS Schweiz is a 100% subsidiary of Credit Suisse AG (CS AG) and CS AG is a 100% subsidiary of Credit Suisse Group AG (the Group), both domiciled in Switzerland.

CS Schweiz was established to support the realization of the Group's strategic objectives, to further increase its resilience and to meet developing and future regulatory requirements related to the Swiss "Too Big To Fail" regime. The entity received its banking

license as of October 14, 2016, and started its business operations as a standalone Swiss bank on November 20, 2016. As a licensed Swiss bank, CS Schweiz will be subject to the same rules and standards as CS AG, including regulatory requirements on client protection, asset segregation and Swiss banking confidentiality.

CS Schweiz provides a full range of banking services to private, corporate and institutional clients based in Switzerland. The Private Clients segment includes ultra-high-net-worth, high-net-worth, affluent and retail customers. The Corporate & Institutional Clients segment covers a variety of corporations, from large Swiss corporates to small and medium-sized enterprises, pension funds and external asset managers.

### Number of employees

end of	2016
<b>Number of employees (full-time equivalents)</b>	
Switzerland	6,590
<b>Total</b>	<b>6,590</b>

### Business developments

#### Business transfer

On November 20, 2016, CS AG transferred its universal bank business for Swiss customers, comprising a significant part of the Swiss Universal Bank division and parts of the business area STS Trading to CS Schweiz. The purpose of this transfer was to implement regulatory requirements in connection with Swiss "Too Big To Fail" legislation and the Swiss systemically relevant functions as well as the strategic realignment of the Group. This business transfer was executed through a transfer of assets and liabilities in accordance with the Swiss Merger Act. The transfer included total assets of CHF 221,079 million and total liabilities of CHF 209,954 million for a cash consideration of CHF 100 million, paid from the proceeds of the CHF 20 million share capital issued in connection with the incorporation of CS Schweiz on April 29, 2015 and the capital increase of CHF 80 million on October 19, 2016. The resulting surplus of CHF 11,025 million between the value of net assets transferred and the consideration paid was recorded as a capital contribution in legal capital reserves. In connection with the asset transfer, CS Schweiz also recognized intangible assets of CHF 3,525 million with the corresponding balance recorded in legal capital reserves. The intangible assets reflected the value of the client base and goodwill related to the business transferred. Pursuant to the asset transfer agreement of November 17, 2016 between CS AG and CS Schweiz, the asset transfer with respect to benefits and risks was executed with retroactive effect as of August 1, 2016. Under the Swiss Merger Act, CS AG assumed a

three-year statutory joint and several liability for obligations existing at the transfer date on November 20, 2016 and which were transferred to CS Schweiz.

In connection with the aforementioned asset transfer agreement, CS AG also undertook to provide CS Schweiz with additional bail-in capital in the form of a loan at market terms in the amount of CHF 3.3 billion which, for purposes of, and during restructuring proceedings with respect to, CS Schweiz, would be subordinated to selected operative claims.

► Refer to "Off-balance sheet transactions" and "Statement of changes in equity" for further information.

#### Subsequent events

In February 2017, CS Schweiz and Credit Suisse Asset Management International Holding Ltd (CSAM IHAG), with a participating interest of 49% and 51%, respectively, incorporated Credit Suisse Asset Management & Investor Services (Schweiz) Holding AG (CSAM Holding), a holding company domiciled in Switzerland. CS AG transferred participating interests of 49% in four fund management companies and in Credit Suisse Asset Management (Schweiz) AG (CSAM Schweiz) to CS Schweiz by way of an a-fonds-perdu contribution (i.e., without consideration). Subsequently, CS Schweiz contributed these participating interests to CSAM Holding. The remaining 51% in these five entities were contributed to CSAM Holding through CSAM IHAG. CSAM Schweiz was incorporated in February 2017 and received the Swiss-related asset management business from CS AG through a transfer of

assets in accordance with the Swiss Merger Act. All transfers of participations were made at the participations' Swiss GAAP carrying value as recorded by the transferor.

In order to align the corporate structure of CS Schweiz with that of the Swiss Universal Bank division, the following equity stakes held by the Group will be transferred to CS Schweiz: (i) 100% equity stake in Neue Aargauer Bank AG, (ii) 100% equity stake in BANK-now AG, and (iii) 50% equity stake in Swisscard AECS

GmbH. The transfer of these equity stakes is currently expected to take place by way of an a-fonds-perdu contribution from the Group to CS AG and immediately thereafter via a subsequent sale of these equity stakes from CS AG to CS Schweiz. The a-fonds-perdu contribution and the subsequent sale are expected to take place at the respective equity stakes' aggregate Swiss GAAP carrying value as recorded by the Group. The transfer is expected to be completed by March 31, 2017.

## 2 Accounting and valuation principles

### Summary of significant accounting and valuation principles

#### Basis for accounting

The CS Schweiz stand-alone financial statements are prepared in accordance with the accounting rules of the Swiss Federal Law on Banks and Savings Banks (Bank Law), the corresponding Implementing Ordinance (Bank Ordinance) and FINMA circular 2015/1, "Accounting rules for banks, securities dealers, financial groups and conglomerates" (Swiss GAAP statutory) as applicable for the preparation of reliable assessment statutory single-entity financial statements (*Statutarischer Einzelabschluss mit zuverlässiger Darstellung*).

CS Schweiz prepared its first annual financial statements as a Swiss bank for the financial year from August 1 to December 31, 2016. During the financial reporting periods from incorporation on April 29, 2015 to December 31, 2015 and from January 1, 2016 to July 31, 2016, CS Schweiz did not have any operations and only insignificant amounts of income and expenses. As of July 31, 2016, the date of the latest audited statutory financial statements prepared in accordance with the Swiss Code of Obligations, CS Schweiz had a balance due from banks with CS AG of CHF 20.4 million, other short-term liabilities and accrued expenses and deferred income of CHF 0.6 million, primarily with CS AG, a share capital of CHF 20 million and accumulated losses of CHF 0.2 million. Due to the limited number of balance sheet and statement of income positions, their immateriality in relation to the balance sheet and the statement of income presented as of December 31,

2016 and the five-month period then ended, a comparative period has not been presented for the statement of income, the balance sheet and most of the notes to the financial statements.

#### Recording of transactions

Transactions are generally recognized on a trade date basis at the point in time when they become legally binding unless specific guidance is provided for settlement date accounting, such as for issuances of debt and structured notes.

#### Foreign currency translations

The functional currency of CS Schweiz is Swiss francs (CHF). Transactions denominated in currencies other than the functional currency are recorded using the foreign exchange rates at the date of the transaction.

Receivables and payables denominated in foreign currency are translated to Swiss francs using spot rates as of the balance sheet date. Gains and losses from foreign exchange rate differences are recorded in the statement of income in net income/(loss) from trading activities and fair value option. Participations, tangible fixed assets and intangible assets denominated in foreign currency are translated to Swiss francs using the historical exchange rates.

The following table provides the foreign exchange rates applied for the preparation of the CS Schweiz stand-alone financial statements.

#### Foreign exchange rates

	2016	
	End of	Average in <sup>1</sup>
1 USD / 1 CHF	1.02	0.99
1 EUR / 1 CHF	1.07	1.09
1 GBP / 1 CHF	1.26	1.26
100 JPY / 1 CHF	0.87	0.93

<sup>1</sup> Financial year from August 1 to December 31, 2016.

**Cash and other liquid assets**

Cash and other liquid assets are recognized at their nominal value.

**Due from banks**

Amounts due from banks, including interest due but not paid, are recognized at their nominal value less any necessary valuation adjustments.

**Due from customers and mortgage loans**

Amounts due from customers and mortgage loans, including interest due but not paid, are recognized at their nominal value less any necessary valuation adjustments.

All customer loans are assessed individually for default risks and, where necessary, valuation adjustments are recorded in accordance with internal policies. These valuation adjustments take into account the value of the collateral and the financial standing of the borrower (counterparty risk). CS Schweiz evaluates many factors when determining valuation adjustments, including the volatility of default probabilities, rating changes, the magnitude of potential loss, internal risk ratings, and geographic, industry and other economic factors.

Valuation adjustments are netted with the corresponding assets.

**Trading assets and liabilities**

In order to qualify as trading activity, positions (assets and liabilities) have to be actively managed with the objective to realize gains from fluctuations in market prices which includes an ongoing willingness to increase, decrease, close or hedge risk positions. Trading positions also include positions held with the intention of generating gains from arbitrage. The designation as trading position has to be made, and documented accordingly, upon conclusion of the transaction.

Trading securities are carried at fair value with changes in fair value recorded in the statement of income in net income/(loss) from trading activities and fair value option. The fair value is determined using either the price set on a price-efficient and liquid market or a price calculated using a valuation model.

Interest and dividend income resulting from trading positions is recorded in gross income from interest activities. Refinancing costs are not charged to net income from trading activities and fair value option.

Reclassifications between trading assets, financial investments and participations are allowed. Such reclassifications are recorded at the fair value valid at the time when the decision to reclassify is made. Resulting gains or losses are recognized applying the same accounting principles as for the recognition of results from the disposal of such assets.

**Derivative financial instruments and hedge accounting**

Derivative financial instruments consist of trading and hedging instruments.

Positive and negative replacement values of outstanding derivative financial instruments arising from transactions for CS

Schweiz's own account are disclosed as separate line items in the balance sheet, with related fair value changes recorded in net income from trading activities and fair value option.

Replacement values of derivative financial instruments arising from transactions for the account of customers are recognized only if a risk exists that a customer or other counterparty (e.g., exchange, exchange member, issuer of the instrument, broker) of a transaction is no longer able to meet its obligations resulting in an exposure to loss for CS Schweiz during the remaining term of the contract.

Hedge accounting is determined, tested for effectiveness and disclosed in accordance with US GAAP as allowed under Swiss GAAP statutory accounting rules. Derivative financial instruments used as hedging instruments in hedging relationships are always recorded at fair value.

For fair value hedges, to the extent these hedges are effective, the gains and losses resulting from the valuation of the hedging instruments are recorded in the same statement of income line items in which gains and losses from the hedged items are recognized. Gains and losses resulting from fair valuing the risk being hedged of the hedged items are not recorded as an adjustment to the carrying value of the hedged items but are recorded in the compensation account included in other assets or other liabilities. Any changes in fair value representing hedging ineffectiveness are recorded in net income from trading activities and fair value option.

For cash flow hedges, to the extent these hedges are effective, gains and losses resulting from the valuation of the hedging instruments are deferred and recorded in the compensation account included in other assets or other liabilities. The deferred amounts are released and recorded in the statement of income in the same period when the cash flows from the hedged transactions or hedged items are recognized in earnings. Any changes in fair value representing hedging ineffectiveness are recorded in net income from trading activities and fair value option.

**Other financial instruments held at fair value and liabilities from other financial instruments held at fair value**

Financial instruments which are not part of the trading portfolio may be measured at fair value and classified in other financial instruments held at fair value or liabilities from other financial instruments held at fair value if all of the following conditions are met:

- The financial instruments are valued at fair value and are subject to risk management corresponding to that for trading positions including a documented risk management and investment strategy which ensures appropriate recognition, measurement and limitation of the miscellaneous risks.
- An economic hedging relationship between the financial instruments on the asset side and the financial instruments on the liability side exists and gains and losses from the fair valuation of these financial instruments are largely offset (avoidance of an accounting mismatch).
- Impacts of changes in own credit spreads on the fair value of an issued debt instrument following initial recognition cannot

be reflected in the statement of income. Impacts of changes in own credit spreads are recognized in the compensation account.

Changes in fair value are recorded in net income from trading activities and fair value option.

### Participations

Equity securities in a company, which are owned by CS Schweiz, qualify as a participation if these securities are held for the purpose of permanent investment, irrespective of the percentage of voting shares held, or, if these equity securities are in a banking and financial market infrastructure enterprise, in particular participations in joint organizations.

Participations are measured at acquisition cost less any impairments. Goodwill and intangible assets related to the acquisition of a participation are part of the participation's historical cost under Swiss GAAP statutory and not separately identified and recorded. Impairment is assessed individually for each participation at each balance sheet date or at any point in time when facts and circumstances would indicate that an event has occurred which triggers an impairment review. An impairment is recorded if the carrying value exceeds the fair value of the participation. If the fair value of a participation recovers significantly and is considered sustainable, a prior period impairment can be reversed up to the historical cost value of the respective participation.

### Intangible assets

Intangible assets may be acquired individually or as part of a group of assets assumed in a business transfer. Intangible assets mainly include but are not limited to: customer base, goodwill and trademarks. Intangible assets are initially measured at their acquisition costs. Intangible assets are amortized over a useful life not to exceed five years and tested for impairment annually, or more frequently if events or changes in circumstances indicate that the intangible assets may be impaired.

### Other assets and other liabilities

Other assets and other liabilities are generally recorded at cost or nominal value. Other assets and other liabilities include the net balance of the compensation accounts. The compensation accounts are used to record the hedge effectiveness, impacts from changes in own credit spreads and deferred gains or losses from the sale of debt securities held-to-maturity.

Changes in the book values of assets and liabilities that are not recognized in the statement of income of a reporting period are recorded in the compensation account as assets or liabilities. The gross amounts of compensation account assets and liabilities are offset and reported net on the balance sheet either in other assets or in other liabilities.

### Due to banks

Amounts due to banks are recognized at their nominal value.

### Customer deposits

Amounts due in respect of customer deposits are recognized at their nominal value.

### Bonds and mortgage-backed bonds

Bonds and mortgage-backed bonds are carried at amortized cost. Debt issuance costs are recorded in other assets and other liabilities, respectively.

### Provisions

Provisions are recorded to cover specific risks related to a past event prior to the balance sheet date. Provisions represent a probable obligation for which amount and/or due date are uncertain but can be reasonably estimated. Where the time factor has a material impact, the amount of the provision is discounted.

Provisions which are no longer economically necessary and which are not used in the same reporting period to cover probable obligations of the same nature are released to income:

- tax provisions through line item taxes;
- provisions for pension benefit obligations and staff-related restructuring provisions through personnel expenses; and
- provisions for off-balance sheet related default risks and other provisions including litigation provisions through line item increase/(release) of provisions and other value adjustments, and losses.

### Commission income

Commission income is recognized when arrangements exist, services have been rendered, the revenue is fixed or determinable and collectability is reasonably assured. As applicable, commissions and fees are recognized ratably over the service period and either accrued or deferred in the balance sheet in the line items accrued income and prepaid expenses and accrued expenses and deferred income, respectively.

Commission income and commission expense are generally recorded on a gross basis in the statement of income.

### Income tax accounting

Income taxes are based on the tax laws of each tax jurisdiction and are expensed in the period in which the taxable profits are made.

Tax provisions are recognized in the statement of income in line item taxes and included in provisions on the balance sheet.

In line with the accounting rules for single-entity statutory financial statements, deferred tax assets on net operating losses are not recognized. Deferred taxation items for temporary differences between the carrying value of an asset or a liability under Swiss GAAP statutory and the respective value for tax reporting, i.e., its tax base, are also not recognized.

**Extraordinary income and expense**

The recognition of extraordinary income or expense is limited to either transactions which are non-recurring and non-operating, such as the disposal of fixed assets or participations, or income and expense related to other reporting periods if they account for the correction of errors with regards to non-operating transactions of prior periods.

**Contingent liabilities and irrevocable commitments**

Contingent liabilities are recorded as off-balance sheet transactions at their maximum potential payment amounts. Irrevocable commitments are recorded as off-balance sheet transactions at their nominal values, except for irrevocable commitments with a remaining maturity of less than six weeks which are excluded from the disclosure. As necessary, related provisions are recorded on the balance sheet in line item provisions.

**Capital adequacy disclosures**

Capital adequacy disclosures for the Group and CS Schweiz are presented in the publications “Pillar 3 and regulatory disclosures – Credit Suisse Group AG” and “Regulatory disclosures – Subsidiaries”, respectively, which will be available on the Group’s website [www.credit-suisse.com/regulatorydisclosures](http://www.credit-suisse.com/regulatorydisclosures).

**Adoption of new accounting standard**

With the financial reporting year from August 1 to December 31, 2016, CS Schweiz adopted the accounting rules for Swiss banks in accordance with the Bank Law, the Bank Ordinance and FINMA circular 2015/1. Financial statements for prior periods were prepared under the general accounting rules of the Swiss Code of Obligations. The adoption of the new accounting standard changed the presentation of the financial statements and the scope of disclosures, but did not have any impact on net profit/(loss) or total shareholders’ equity.

**3 Risk management, use of derivative financial instruments and hedge accounting****Risk management**

Fundamental to the business of CS Schweiz is the prudent taking of risk in line with its strategic priorities. The primary objectives of risk management are to protect financial strength and reputation of CS Schweiz. The risk management framework of CS Schweiz is based on transparency, management accountability and independent oversight. Risk management is an integral part of its business planning process with strong involvement of senior management and the Board of Directors (Board).

**Risk governance**

The risk governance framework of CS Schweiz is based on a “three lines of defense” governance model, where each line has a specific role and defined responsibilities and works in close collaboration to identify, assess and mitigate risks.

The first line of defense is the front office, which is responsible for pursuing suitable business opportunities within the strategic risk objectives and compliance requirements of CS Schweiz, and has primary responsibility for ensuring compliance with relevant legal and regulatory requirements and internal controls.

The second line of defense is separate from the front office and acts as an independent control function, responsible for reviewing and challenging front office activities and producing independent management information and risk management reporting for senior management and regulatory authorities. The second line of defense includes functions such as risk management, legal, compliance and product control. It articulates standards and expectations for the management of risk and effectiveness of controls, including advising on applicable legal and regulatory requirements as well as preparing and issuing related policies, and monitors compliance with these policies.

The third line of defense is the internal audit function, which monitors the effectiveness of controls across various functions and operations, including risk management and governance practices.

**Board of Directors**

The Board is responsible for the strategic direction, supervision and control of CS Schweiz, and for defining its overall tolerance for risk in the form of a risk appetite statement and overall risk limits. Overall risk limits are set by the Board in consultation with its Risk Committee.

The Risk Committee is responsible for assisting the Board in fulfilling its oversight responsibilities by providing guidance regarding risk governance and the development of the risk profile and capital adequacy of CS Schweiz, including the regular review of major risk exposures and overall risk limits.

**Executive Board**

The Executive Board is responsible for developing and implementing strategic business plans of CS Schweiz, subject to approval by the Board. It further reviews and coordinates significant initiatives for the risk management function and establishes bank-wide risk policies. The Chief Risk Officer (CRO) of CS Schweiz is a member of the Executive Board and represents the risk management function.

**Executive Board risk committees**

The Capital Allocation & Risk Management Committee (CARMC) of CS Schweiz is responsible for supervising and directing the risk profile of CS Schweiz, recommending risk limits to the Risk Committee and the Board, establishing and allocating risk limits among the various businesses, and for developing measures,

methodologies and tools to monitor and manage the risk portfolio. CARMC of CS Schweiz operates in two committees: the Risk Management Committee (RMC) and the Asset Liability Management Committee (ALMC). The RMC is the main governance and decision-making body with respect to market, liquidity, credit and position risk-related matters as well as with respect to operational risks, legal, compliance and regulatory issues and internal control matters. The RMC is responsible for the supervision and control of the risk profile, its future development and its adequacy with the risk strategy of CS Schweiz. The RMC is also responsible for assessing the allocation of risk capital and making recommendations to the Board as well as establishing and allocating risk limits. The ALMC is responsible for capital, liquidity and funding-related matters, including interest rate risk management, foreign exchange risk and balance sheet development within defined limits.

The Risk Processes & Standards Committee (RPSC) reviews major risk management processes, issues general instructions, standards and processes concerning risk management, approves material changes in market, credit and operational risk management standards, policies and related methodologies, and approves the standards of internal models used for calculating regulatory capital requirements.

The Reputational Risk Committee (RRC) sets policies and reviews processes and significant cases relating to reputational risks and sustainability issues. It also ensures compliance with the Group's reputational and sustainability policies and oversees their implementation.

#### Risk appetite framework

CS Schweiz maintains a comprehensive risk appetite framework, which is governed by a policy and provides a robust foundation for risk appetite setting and management. A key element of the framework is a detailed statement of the Board-approved risk appetite which is aligned to the financial and capital plans of CS Schweiz. The framework also encompasses the processes and systems for assessing the appropriate level of risk appetite required to constrain the overall risk profile of CS Schweiz.

The CS Schweiz risk appetite framework is aligned to and reflected as a distinct part of the Group risk appetite framework, which is governed by an overarching global policy that encompasses the suite of specific policies, processes and systems with which the risk controls are calibrated and the risk profile is managed. The risk appetite framework of CS Schweiz was established in 2016 and is guided by the following strategic risk objectives:

- maintaining capital adequacy above minimum regulatory requirements under both normal and stressed conditions;
- promoting stability of earnings to support performance in line with financial objectives;
- ensuring sound management of liquidity and funding risk in normal and stressed conditions;
- proactively controlling concentration risks;
- managing operational risk to ensure sustainable performance;
- minimizing reputational risk; and
- managing and controlling business conduct risk.

Risk appetite of CS Schweiz is determined in partnership with the financial and capital planning process on an annual basis, based on bottom-up forecasts that reflect planned risk-usage by the businesses and top-down, Board-driven strategic risk objectives and risk appetite. Scenario stress testing of financial and capital plans is an essential element in the risk appetite calibration process as a key means through which strategic risk objectives, financial resources and business plans are aligned. The risk appetite is approved through a number of internal governance forums, including joint approval by both the CRO and the Chief Financial Officer (CFO), the RMC of CS Schweiz, the Board's Risk Committee and subsequently by the Board.

A core aspect of the CS Schweiz risk appetite framework is a sound system of integrated risk controls to maintain the risk profile of CS Schweiz within its overall risk appetite. Controls are classified according to type and authority, with the principal control types comprising limits, guidelines and tolerances. The risk controls restrict the maximum balance sheet and off-balance sheet exposure of CS Schweiz given the market environment, business strategy and financial resources available to absorb losses.

#### Risk coverage and management

CS Schweiz uses a wide range of risk management practices to address the variety of risks that arise from its business activities. Policies, limits, guidelines, processes, standards, risk assessment and measurement methodologies, and risk monitoring and reporting are key components of CS Schweiz's risk management practices. The risk management practices of CS Schweiz complement each other in its analysis of potential loss, support the identification of interdependencies and interactions of risks across the organization and provide a comprehensive view of its exposures. CS Schweiz regularly reviews and updates its risk management practices to ensure consistency with its business activities and relevance to its business and financial strategies.

The key risk types, their definitions and key risk evaluation methods are summarized below.

It is important both to evaluate each risk type separately and assess the risk types' combined impact on CS Schweiz, which helps ensure that its overall risk profile remains within the risk appetite of CS Schweiz and the Group.

#### Credit risk

Credit risk is the risk of financial loss arising as a result of a borrower or counterparty failing to meet its financial obligations or as a result of deterioration in the credit quality of the borrower or counterparty.

The majority of the credit risk of CS Schweiz is concentrated in the Swiss private banking, corporate and institutional businesses. Credit risk arises from lending products, irrevocable loan commitments, credit guarantees and letters of credit, and results from counterparty exposure arising from derivatives, foreign exchange and other transactions.

Effective credit risk management is a structured process to assess, measure, monitor and manage risk on a consistent basis.



This requires careful consideration of proposed extensions of credit, the setting of specific limits, monitoring during the life of the exposure, active use of credit mitigation tools and a disciplined approach to recognizing credit impairment.

The credit risk management framework of CS Schweiz covers its credit exposure with third parties and includes the following core components:

- individual counterparty rating systems;
- transaction rating systems;
- a counterparty credit limit system;
- country concentration limits;
- industry concentration limits;
- product limits;
- risk-based pricing methodologies;
- active credit portfolio management; and
- a credit risk provisioning methodology.

CS Schweiz employs a set of credit ratings for the purpose of internally rating counterparties to whom it is exposed to credit risk as the contractual party. Credit ratings are intended to reflect the risk of default of each counterparty. Ratings are assigned based on internally developed rating models and processes, which are subject to governance and internally independent validation procedures. The internal ratings of CS Schweiz may differ from counterparties' external ratings, if one is available. Internal ratings for private individual loans and for corporates are regularly reviewed depending on loan type, client segment, collateral or event-driven developments. Internal ratings for all other corporate and institutional credit facilities are reviewed at least annually. For the calculation of internal risk estimates (e.g., an estimate of expected loss in the event of a counterparty default) and risk-weighted assets, a probability of default (PD), loss given default (LGD) and exposure at default (EAD) is assigned to each facility. These three parameters are primarily derived from internally developed statistical models that have been backtested against internal experience, validated by a function independent of the model owners on a regular basis and approved by FINMA for application in the regulatory capital calculation in the advanced internal ratings-based approach (A-IRB) under the Basel framework.

Credit limits are used to manage individual counterparty credit risk. A system of limits is also established to address concentration risk in the portfolio, including a comprehensive set of country limits and limits for certain products, counterparties and industries. In addition, credit risk concentration is regularly supervised by credit and risk management committees, taking current market conditions and trend analysis into consideration. A rigorous credit quality review process provides an early identification of possible changes in the creditworthiness of clients and includes regular asset and collateral quality reviews, business and financial statement analysis, and relevant economic and industry studies. Regularly updated watch lists and review meetings are used for the identification of counterparties that could be subject to adverse changes in creditworthiness.

#### *Default risks, impairments and credit risk provisioning methodology*

CS Schweiz's regular review of the credit quality of clients and counterparties does not depend on the accounting treatment of the asset or commitment. The appropriateness of allowances for credit losses is regularly reviewed. Impaired transactions are further classified as potential problem exposure, non-performing exposure, non-interest-earning exposure or restructured exposure, and the exposures are generally managed within credit recovery units. The credit portfolio & provisions review committee regularly determines the adequacy of allowances, at the level of the Group and CS Schweiz. For impaired loans, the fair value of collateral is determined within 90 days of the date the impairment was identified and thereafter annually or more frequently by credit risk management within the impairment review process.

CS Schweiz maintains specific valuation allowances on loans valued at amortized cost, which are considered a reasonable estimate of losses identified in the existing credit portfolio. Provisions for loan losses are established based on a regular and detailed analysis of all counterparties, taking collateral value into consideration. If uncertainty exists as to the repayment of either principal or interest, a specific valuation allowance is either created or adjusted accordingly. The specific allowance for loan losses is revalued by credit risk management of CS Schweiz at least annually or more frequently depending on the risk profile of the borrower or credit relevant events.

An inherent loss allowance is estimated for all loans not specifically identified as impaired and that, on a portfolio basis, are considered to contain inherent losses. Inherent losses in the lending portfolios of CS Schweiz related to the Swiss private banking, corporate, institutional and real estate businesses are determined based on current internal risk ratings, collateral and exposure structure, applying historical default and loss experience in the ratings and loss parameters. In the investment banking businesses of CS Schweiz, inherent losses on loans are estimated based on a model using long-term industry-wide historical default and recovery data taking into account the credit rating and industry of each counterparty. A separate component of the calculation reflects the current market conditions in the allowance for loan losses. Qualitative adjustments to reflect current market conditions or any other factors not captured by the model are approved by management and reflected in the allowance for loan losses. A provision for inherent losses on off-balance sheet lending-related exposure, such as contingent liabilities and irrevocable commitments, is also determined, using a methodology similar to that used for the loan portfolio.

#### *Risk mitigation*

CS Schweiz actively manages its credit exposure utilizing credit hedges, collateral and guarantees. Collateral is security in the form of an asset, which serves to mitigate the inherent risk of credit loss and to improve recoveries in the event of a default.

The policies and processes for collateral valuation and management are driven by legal documentation that is agreed with the

counterparties of CS Schweiz and an internally independent collateral management function.

For credit exposures collateralized by marketable securities, collateral is valued daily, except as agreed otherwise in contracts or other legal documentation. The mark-to-market prices used for valuing collateral are a combination of internal and market prices sourced from trading platforms and service providers, as appropriate. The management of collateral is standardized and centralized to ensure complete coverage of traded products.

For the mortgage lending portfolio in the private banking, corporate and institutional businesses, real estate property is valued at the time of credit approval and periodically thereafter, according to internal policies and controls of CS Schweiz, depending on the type of loan (e.g., residential or commercial loan), characteristics of the borrower, current developments in the relevant real estate market and the current level of credit exposure to the borrower (loan-to-value ratio). If the credit exposure to a borrower has changed significantly, in volatile markets or in times of increasing general market risk, collateral values may be appraised more frequently. Management judgment is applied in assessing whether markets are volatile or general market risk has increased to a degree that warrants a more frequent update of collateral values. Movements in monitored risk metrics that are statistically different compared to historical experience are considered in addition to analysis of externally-provided forecasts, scenario techniques and macro-economic research.

The primary types of collateral typically depend on the type of credit transaction. Collateral securing foreign exchange transactions and OTC trading activities primarily includes cash and US treasury instruments, G10 government securities and corporate bonds. Collateral securing loan transactions primarily includes financial collateral pledged against loans collateralized by securities of clients in the private banking, corporate and institutional businesses (primarily cash and marketable securities), real estate property for mortgages, mainly residential, but also offices and commercial properties, and other types of lending collateral such as accounts receivable, inventory, plant and equipment.

#### Reputational risk

Reputational risk is the risk that negative perception by stakeholders of CS Schweiz, including clients, employees, regulators and the general public, may adversely impact client acquisition and damage business relationships of CS Schweiz with clients and counterparties, affecting staff morale and reducing access to funding sources.

Reputational risk may arise from a variety of sources, including the nature or purpose of a proposed transaction or service, the identity or activity of a controversial client, the regulatory or political climate in which the business will be transacted, and the potentially controversial environmental or social impacts of a transaction or significant public attention surrounding the transaction itself. The risk may also arise from reputational damage in the aftermath of an operational risk event.

The policy of CS Schweiz is to avoid any action, transaction or client relationship that involves the risk of an unacceptable level of damage to its reputation. CS Schweiz has a number of measures to mitigate potential reputational risk.

Reputational risk potentially arising from proposed business transactions and client activity is assessed in the reputational risk review process. The policy requires employees to be conservative when assessing potential reputational impact and, where certain indicators give rise to potential reputational risk, the relevant business proposal or service must be submitted through the reputational risk review process. This involves a submission by an originator (any employee), approval by a business area head or designee, and its subsequent referral to one of the assigned reputational risk approvers, each of whom is an experienced and high-ranking senior manager, independent of the business divisions, who has authority to approve, reject or impose conditions on the bank's participation in the transaction or service.

#### Operational risk

Operational risk is the risk of financial loss arising from inadequate or failed internal processes, people or systems, or from external events.

Operational risk is inherent in most aspects of CS Schweiz's business, including the systems and processes that support its activities. It comprises a large number of disparate risks that can manifest in a variety of ways. Particularly relevant examples of operational risk include the risk of fraudulent transactions, trade processing errors, business disruptions, failures in regulatory compliance, defective transactions, and unauthorized trading events. Operational risk can arise from human error, inappropriate conduct, failures in systems, processes and controls, or natural and man-made disasters.

For management of operational risk, CS Schweiz makes use of the operational risk framework developed by the Group. The diverse nature and wide extent of operational risk makes it inherently difficult to measure. CS Schweiz believes that effective management of operational risk requires a common bank-wide operational risk framework that focuses on the early identification, recording, assessment, monitoring, prevention and mitigation of operational risks, as well as timely and meaningful management reporting. The operational risk framework of CS Schweiz provides a structured approach to managing operational risk. It seeks to apply consistent standards and techniques for evaluating risks across the bank while providing individual businesses with sufficient flexibility to tailor specific components to their own needs, as long as they meet bank-wide minimum standards.

As a component of operational risk, technology risk is the risk that technology-related failures, such as service outages or information security incidents, may disrupt business. Technology risk is inherent not only in information technology assets of CS Schweiz, but also in the people and processes that interact with them. Cyber risk, which is part of technology risk, is the risk that the systems of CS Schweiz will not operate properly or will be compromised as a result of cyber-attacks, security breaches, unauthorized access, loss or destruction of data, unavailability of service, computer

viruses or other events that could have an adverse security impact. Technology risks are managed through the technology risk management program, the business continuity management plan and contingency and resiliency plans of CS Schweiz. Although CS Schweiz has business continuity plans, its businesses face a wide variety of operational risks, including technology risk arising from dependencies on information technology, third-party suppliers and the worldwide telecommunications infrastructure. CS Schweiz operates in a complex technological landscape covering its diverse business model. Ensuring that the confidentiality, integrity and availability of information assets are protected is critical to its operations.

In addition to managing and mitigating operational risks under the operational risk framework through business- and risk-related processes and organization, CS Schweiz is also covered by several Group-wide insurance policies, which transfer the risk of potential losses from certain operational risks to third-party insurance companies in certain instances.

In 2016, CS Schweiz introduced an internal model to calculate the regulatory capital requirement for operational risk under the advanced measurement approach, which has been approved by FINMA.

#### Liquidity and funding risks

Liquidity and funding risk is the risk that CS Schweiz does not have the appropriate amount of funding and liquidity to meet its obligations. The liquidity and funding profile of CS Schweiz reflects its strategy and risk appetite and is driven by business activity levels and the overall operating environment. The liquidity and funding strategy is approved by the ALMC and overseen by the Board. The implementation and execution of the funding and liquidity strategy is managed by Treasury. Treasury ensures adherence to the Group's global funding policy and the efficient coordination of the secured funding desks. This approach enhances the ability of CS Schweiz to manage potential liquidity and funding risks and to promptly adjust its liquidity and funding levels to meet stress situations. The liquidity and funding profile of CS Schweiz is regularly reported to the ALMC, the RMC and the Board, who define the risk tolerance of CS Schweiz, including liquidity risk, and set parameters for the balance sheet and funding usage of its businesses.

#### Market risk

Market risk is the risk of financial loss from adverse changes in market prices, including interest rates, credit spreads, foreign exchange, equity and commodity prices, and other factors such as market volatility and the correlation of market prices. A typical transaction or position in financial instruments may be exposed to a number of different market risks. The trading (trading book) and non-trading (banking book) business activities of CS Schweiz have different sources of market risk. The classification of assets into trading book and banking book portfolios determines the approach for analyzing the market risk exposure of CS Schweiz. This classification reflects the business and risk management perspective and

may be different from the classification of these assets for financial reporting purposes.

Market risks of CS Schweiz results primarily from trading and banking books, including treasury books. The primary objective of the trading activities of CS Schweiz is to support and provide market access to its Swiss clients.

Market risks from the banking book primarily relate to asset and liability mismatch exposures. The businesses of CS Schweiz and Treasury have non-trading portfolios that carry market risks, mainly related to changes in interest rates and changes in foreign exchange rates.

CS Schweiz uses market risk measurement and management methods capable of calculating comparable exposures across its many activities and focused tools that can model unique characteristics of certain instruments or portfolios. The tools are used for internal market risk management, internal market risk reporting and external disclosure purposes. The principal market risk measurement of CS Schweiz is value-at-risk (VaR). In addition, the market risk exposures of CS Schweiz are reflected in scenario analysis, as included in the stress testing framework and sensitivity analysis. Each evaluation method aims to estimate the potential loss that CS Schweiz can incur due to an adverse market movement over a defined holding period with a specified confidence level. VaR, scenario analysis and sensitivity analysis complement each other in the market risk assessment of CS Schweiz and are used to measure market risk at the level of CS Schweiz. For example, interest rate risk for banking book positions is measured by estimating the impact resulting from a one basis point parallel increase in yield curves on the fair value of interest rate-sensitive banking book positions and other measures including the potential value change resulting from a significant change in yield curves.

In the banking book, savings accounts and many other retail banking products have no contractual maturity date or direct market-linked interest rate and are risk-managed on a pooled basis using replication portfolios on behalf of the private banking, corporate and institutional businesses. The replication portfolios approximate the interest rate characteristics of the underlying products. This particular source of market risk is monitored on a daily basis.

#### Legal, compliance, regulatory and conduct risks

Legal risk is the risk of loss or imposition of damages, fines, penalties or other liability or any other material adverse impact arising from circumstances including the failure to comply with legal obligations, whether contractual, statutory or otherwise, changes in enforcement practices, the making of a legal challenge or claim against CS Schweiz, its inability to enforce legal rights or the failure to take measures to protect its rights.

Compliance and regulatory risk is the risk that results from the failure to comply with laws, regulations, rules or market standards that may have a negative effect on the franchise and clients CS Schweiz serves. It includes the risk that changes in laws, regulations, rules or market standards may limit activities of CS Schweiz and have a negative effect on its business or its ability to implement strategic initiatives, or can result in an increase in operating

costs for the business or make its products and services more expensive for clients.

Conduct risk is the risk that improper behavior or judgment by employees or representatives of CS Schweiz results in negative financial, non-financial, and/or reputational harm to its clients, its employees or CS Schweiz, or damage to the integrity of the financial markets. Conduct risk may arise from a wide variety of activities and types of behaviors of both a business and personal nature. A firm-wide definition of expectations relating to the conduct of its employees and representatives helps to ensure that CS Schweiz has a common understanding of and is consistently managing, minimizing, and mitigating its conduct risk and further promotes standards of responsible conduct and ethics in its employees. Managing conduct risk includes consideration of the risks generated by each business and the strength of the associated mitigating controls. Conduct risk is also assessed by reviewing and learning from past incidents within the bank and at other firms in the financial services sector. Furthermore, the Group's Code of Conduct provides a clear statement of the ethical values and professional standards expected of employees and representatives across the Group as a basis for maintaining and strengthening the Group's reputation for integrity, fair dealing and measured risk-taking.

As part of the Group's and CS Schweiz's risk framework, legal, compliance, regulatory and conduct risks fall within the definition of operational risk. Management of these risks is the responsibility of all its employees.

### Use of derivative financial instruments and hedge accounting

#### Business policy for use of derivative financial instruments

Derivatives are generally either privately negotiated OTC contracts or standard contracts transacted through regulated exchanges. CS Schweiz's most frequently used freestanding derivative products, entered into for trading and risk management purposes, include interest rate, credit default and cross-currency swaps, interest rate and foreign exchange options, foreign exchange forward contracts and foreign exchange and interest rate futures.

On the date a derivative contract is entered into, CS Schweiz designates it as belonging to one of the following categories: trading activities; a risk management transaction that does not qualify as a hedge under accounting standards (referred to as an economic hedge); a hedge of the fair value of a recognized asset or liability; or a hedge of the variability of cash flows to be received or paid relating to a recognized asset or liability or a forecasted transaction.

#### Economic hedges

Economic hedges arise when CS Schweiz enters into derivative contracts for its own risk management purposes, but the contracts entered into do not qualify for hedge accounting. These economic hedges include the following types:

- interest rate derivatives to manage net interest rate risk on certain core banking business assets and liabilities;

- foreign exchange derivatives to manage foreign exchange risk on certain core banking business revenue and expense items as well as core banking business assets and liabilities against adverse movements in foreign exchange rates;
- credit derivatives to manage credit risk on certain loan portfolios; and
- futures to manage risk on equity positions including convertible bonds.

Derivatives used in economic hedges are included as trading assets or trading liabilities in the balance sheets and the respective gains and losses included in net income/(loss) from trading activities and fair value option.

► Refer to "Note 5 – Net income/(loss) from trading activities and fair value option" for further information on economic hedging of foreign exchange risk by the Treasury function.

#### Hedge accounting

Hedge accounting for CS Schweiz is determined, recorded and disclosed in accordance with US GAAP as allowed under Swiss GAAP statutory accounting rules.

► Refer to "Note 13 – Derivative financial instruments" for further information on hedge accounting.

#### Fair value hedges

CS Schweiz designates fair value hedges as part of an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize fluctuations in earnings that are caused by interest rate volatility.

#### Cash flow hedges

CS Schweiz designates cash flow hedges as part of its strategy to mitigate its risk to variability of cash flows on loans, deposits and other debt obligations by using interest rate swaps to convert variable rate assets or liabilities to fixed rates. CS Schweiz also uses cross-currency swaps to convert foreign-currency-denominated fixed and floating rate assets or liabilities to fixed rate assets or liabilities based on the currency profile to which CS Schweiz elects to be exposed. Further, CS Schweiz uses derivatives to hedge its cash flows associated with forecasted transactions.

#### Hedge effectiveness assessment

CS Schweiz assesses the effectiveness of hedging relationships both prospectively and retrospectively. The prospective assessment is made both at the inception of a hedging relationship and on an ongoing basis, and requires CS Schweiz to justify its expectation that the relationship will be highly effective over future periods. The retrospective assessment is also performed on an ongoing basis and requires CS Schweiz to determine whether or not the hedging relationship has actually been effective. If CS Schweiz concludes, through a retrospective evaluation, that hedge accounting is appropriate for the current period, then it measures the amount of hedge ineffectiveness to be recognized in earnings.

#### 4 Net income from interest activities

##### Negative interest

Negative interest income is debited to interest income and negative interest expense is credited to interest expense.

##### Negative interest income and expense

Financial year from August 1 to December 31	2016
<b>Negative interest income and expense (CHF million)</b>	
Negative interest income debited to interest income	(33)
Negative interest expenses credited to interest expense	71

#### 5 Net income/(loss) from trading activities and fair value option

Financial year from August 1 to December 31	2016
<b>Net income/(loss) from trading activities and fair value option by risk of underlying instruments (CHF million)</b>	
Interest rate instruments <sup>1</sup>	(209)
Equity instruments <sup>1</sup>	248
Foreign exchange	182
of which foreign exchange risk hedging activities by treasury function <sup>2</sup>	203
Precious metals	11
Commodities <sup>3</sup>	(44)
Credit instruments	6
Other instruments	(5)
<b>Net income/(loss) from trading activities and fair value option</b>	<b>189</b>
of which net income/(loss) from fair value option	(22)
of which net income/(loss) from fair value option on liabilities	(22)

<sup>1</sup> Includes trading income/(loss) from related fund investments.

<sup>2</sup> The treasury function of CS Schweiz enters into economic hedges to manage foreign currency risk using short duration foreign currency swaps. The result of these hedges includes implicit interest income and expenses from the difference between spot rates and forward rates.

<sup>3</sup> Includes energy products.

Trading activities at CS Schweiz level are only monitored and managed for entity-specific capital adequacy purposes and are not measured along divisional or individual business lines. The trading

activities of the divisions or individual businesses are only monitored and managed at the Group level based on US GAAP metrics.

► Refer to "Note 23 – Amounts receivable from and amounts payable to related parties" for further information on STS Trading.

#### 6 Personnel expenses

Financial year from August 1 to December 31	2016
<b>Personnel expenses (CHF million)</b>	
Salaries	430
of which variable compensation expenses	50
Social benefit expenses	93
of which pension expenses	61
Other personnel expenses	15
<b>Personnel expenses</b>	<b>538</b>

► Refer to "Note 17 – Pension plans" for further information on pension expenses.

## 7 General and administrative expenses

Financial year from August 1 to December 31	2016
<b>General and administrative expenses (CHF million)</b>	
Professional services	73
Occupancy expenses	72
Marketing and advertising	34
Travel and entertainment	18
Postage and courier services	13
Market data services	13
Information and communication technology expenses	4
Furniture and equipment	4
Fees to external audit companies	2
of which fees for financial and regulatory audits <sup>1</sup>	2
Operating expenses charged by related parties <sup>2</sup>	575
Other operating expenses	13
<b>General and administrative expenses</b>	<b>821</b>

<sup>1</sup> Represents total fees for financial statement, regulatory and related audit services paid by legal entity Credit Suisse (Schweiz) AG to external audit companies.

<sup>2</sup> Includes operating expenses charged by CS AG and other affiliated companies, mainly for information technology, operations, business support services and other central functions provided to CS Schweiz.

## 8 Increase/(release) of provisions and other valuation adjustments, and losses

Financial year from August 1 to December 31	2016
<b>Increase/(release) of provisions and other valuation adjustments, and losses (CHF million)</b>	
Increase/(release) of provisions	30 <sup>1</sup>
Other losses	4
<b>Increase/(release) of provisions and other valuation adjustments, and losses</b>	<b>34</b>

<sup>1</sup> Primarily related to increased litigation provisions.

## 9 Taxes

Financial year from August 1 to December 31	2016
<b>Taxes (CHF million)</b>	
<b>Income tax (expense)/benefit</b>	<b>(8)</b>
of which current income tax (expense)/benefit	(8)
<b>Non-income-based tax (expense)/benefit <sup>1</sup></b>	<b>(12)</b>
<b>Taxes</b>	<b>(20)</b>

<sup>1</sup> Includes capital taxes.

For the financial year ended December 31, 2016, the average tax rate, defined as income tax expense divided by the sum of profit before income tax, was 10%. Income tax expense for the financial year ended December 31, 2016 reflected a benefit of CHF 9 million from the utilization of tax losses carried forward in Switzerland.

## 10 Assets and liabilities from securities lending and borrowing, repurchase and reverse repurchase agreements

end of	2016
<b>On-balance sheet (CHF million)</b>	
Carrying value of receivables from cash collateral paid for securities borrowed and reverse repurchase agreements – gross	16,441
Impact from master netting agreements	(2,375)
<b>Carrying value of receivables from cash collateral paid for securities borrowed and reverse repurchase agreements – net</b>	<b>14,066</b>
Carrying value of liabilities from cash collateral received for securities lent and repurchase agreements – gross	6,329
Impact from master netting agreements	(2,375)
<b>Carrying value of liabilities from cash collateral received for securities lent and repurchase agreements – net</b>	<b>3,954</b>
<b>Off-balance sheet (CHF million)</b>	
Carrying value of securities transferred under securities lending and borrowing and repurchase agreements	2,380
of which transfers with the right to resell or repledge	2,380
Fair value of securities received under securities lending and borrowing and reverse repurchase agreements with the right to resell or repledge	25,998
of which repledged	13,323
of which resold	3,393

## 11 Collateral and impaired loans

### Collateralization of loans

end of	Secured <sup>1</sup>		Unsecured	Total	
	Mortgages	Other collateral			
<b>2016 (CHF million)</b>					
Due from customers	741	19,664	20,405	8,442	28,847
Residential property	91,377	0	91,377	0	91,377
Offices and commercial property	11,947	0	11,947	0	11,947
Manufacturing and industrial property	8,086	0	8,086	0	8,086
Other	918	0	918	0	918
Mortgage loans	112,328	0	112,328	0	112,328
<b>Gross loans</b>	<b>113,069</b>	<b>19,664</b>	<b>132,733</b>	<b>8,442</b>	<b>141,175</b>
Allowance for loan losses	(68)	(31)	(99)	(169)	(268)
<b>Net loans</b>	<b>113,001</b>	<b>19,633</b>	<b>132,634</b>	<b>8,273</b>	<b>140,907</b>
of which due from customers	740	19,633	20,373	8,273	28,646
of which mortgage loans	112,261	0	112,261	0	112,261

<sup>1</sup> Includes the market value of collateral up to the amount of the outstanding related loans. For mortgage loans, the market value of collateral is determined at the time of granting the loan and thereafter regularly reviewed according to the risk management policies and directives of CS Schweiz, with maximum review periods determined by property type, market liquidity and market transparency. For impaired mortgage loans, the market value of collateral is determined annually or more frequently by credit risk management within the impairment review process.

**Collateralization of off-balance sheet transactions**

end of			Secured <sup>1</sup>	Unsecured	Total
	Mortgages	Other collateral	Total		
<b>2016 (CHF million)</b>					
Contingent liabilities	180	8,126	8,306	12,556 <sup>2</sup>	20,862
Irrevocable commitments	202	1,108	1,310	7,305	8,615
Obligations for calls on shares and additional payments	0	0	0	47	47
<b>Off-balance sheet transactions</b>	<b>382</b>	<b>9,234</b>	<b>9,616</b>	<b>19,908</b>	<b>29,524</b>

<sup>1</sup> Includes the market value of collateral up to the notional amount of the related off-balance sheet transaction. For mortgage-backed off-balance sheet exposures, the market value of collateral is determined at the time of granting the credit facility and thereafter regularly reviewed according to the risk management policies and directives of CS Schweiz, with maximum review periods determined by property type, market liquidity and market transparency. For impaired exposures, the market value of collateral is determined annually or more frequently by credit risk management within the impairment review process.

<sup>2</sup> Includes a contingent liability of CHF 7,971 million in favor of CS AG representing the amount of actual liabilities recorded by CS AG under the covered bond program for which CS Schweiz holds the underlying mortgages.

**Impaired loans**

end of	Gross amount outstanding	Estimated realizable collateral value <sup>1</sup>	Net amount outstanding	Specific allowance
<b>2016 (CHF million)</b>				
Impaired loans	410	182	228	156

<sup>1</sup> Represents the estimated realizable collateral value up to the related gross amount outstanding.

**Changes in impaired loans**

	2016		
	Due from customers	Mortgage loans	Total
<b>Impaired loans (CHF million)</b>			
<b>Balance as of August 1</b>	<b>0</b>	<b>0</b>	<b>0</b>
Transfer of assets from CS AG on August 1	198	189	387
New impaired loan balances	48	130	178
Increase of existing impaired loan balances	8	3	11
Reclassifications to performing loans	(2)	(79)	(81)
Repayments	(6)	(39)	(45)
Liquidation of collateral, insurance and guarantee payments	(2)	(5)	(7)
Write-offs	(30)	(3)	(33)
Sales	(1)	0	(1)
Foreign exchange translation impact	1	0	1
<b>Balance as of December 31</b>	<b>214</b>	<b>196</b>	<b>410</b>

Changes in impaired loan classification during the period are reflected on a gross basis.



## 12 Trading assets and liabilities and other financial instruments held at fair value

end of	2016
<b>Trading assets held at fair value (CHF million)</b>	
Debt securities, money market instruments and money market transactions	1,523
of which exchange-traded	789
Equity securities	3,120
Precious metals and commodities	1,118
<b>Trading assets</b>	<b>5,761</b>
of which carrying value determined based on a valuation model	1,059
of which securities eligible for repurchase transactions in accordance with liquidity regulations	343
<hr/>	
end of	2016
<b>Trading liabilities and liabilities from other financial instruments held at fair value (CHF million)</b>	
Debt securities, money market instruments and money market transactions	397
of which exchange-traded	353
Equity securities	243
<b>Trading liabilities</b>	<b>640</b>
Structured products	440
<b>Liabilities from other financial instruments held at fair value</b>	<b>440</b>
<b>Trading liabilities and liabilities from other financial instruments held at fair value</b>	<b>1,080</b>
of which carrying value determined based on a valuation model	594

► Refer to “Note 18 – Issued structured products” for further information on structured products.

## 13 Derivative financial instruments

end of 2016	Trading			Hedging <sup>1</sup>		
	Notional amount	Positive replacement value (PRV)	Negative replacement value (NRV)	Notional amount	Positive replacement value (PRV)	Negative replacement value (NRV)
<b>Derivative financial instruments (CHF million)</b>						
Forwards and forward rate agreements	27,000	0	2	0	0	0
Swaps	185,539	3,436	4,353	16,343	62	712
Options bought and sold (OTC)	7,580	447	515	0	0	0
Futures	9,338	0	0	0	0	0
Options bought and sold (exchange-traded)	29	3	0	0	0	0
<b>Interest rate products</b>	<b>229,486</b>	<b>3,886</b>	<b>4,870</b>	<b>16,343</b>	<b>62</b>	<b>712</b>
Forwards and forward rate agreements	227,748	1,954	1,217	0	0	0
Swaps <sup>2</sup>	363	14	14	0	0	0
Options bought and sold (OTC)	8,786	139	96	0	0	0
<b>Foreign exchange products</b>	<b>236,897</b>	<b>2,107</b>	<b>1,327</b>	<b>0</b>	<b>0</b>	<b>0</b>
Forwards and forward rate agreements	2,189	8	6	0	0	0
Options bought and sold (OTC)	1,651	50	22	0	0	0
Futures	1	0	0	0	0	0
<b>Precious metal products</b>	<b>3,841</b>	<b>58</b>	<b>28</b>	<b>0</b>	<b>0</b>	<b>0</b>
Swaps	4,333	136	81	0	0	0
Options bought and sold (OTC)	7,996	376	317	0	0	0
Futures	3,357	0	0	0	0	0
Options bought and sold (exchange-traded)	37,979	871	1,226	0	0	0
<b>Equity/index-related products</b>	<b>53,665</b>	<b>1,383</b>	<b>1,624</b>	<b>0</b>	<b>0</b>	<b>0</b>
Credit default swaps	2,272	33	35	0	0	0
Total return swaps	5	1	1	0	0	0
Other credit derivatives	1,047	25	6	0	0	0
<b>Credit derivatives</b>	<b>3,324</b>	<b>59</b>	<b>42</b>	<b>0</b>	<b>0</b>	<b>0</b>
Swaps	21	0	1	0	0	0
Options bought and sold (OTC)	67	2	4	0	0	0
Futures	28	0	0	0	0	0
Options bought and sold (exchange-traded)	57	0	3	0	0	0
<b>Other derivative products<sup>3</sup></b>	<b>173</b>	<b>2</b>	<b>8</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Derivative financial instruments<sup>4</sup></b>	<b>527,386</b>	<b>7,495</b>	<b>7,899</b>	<b>16,343</b>	<b>62</b>	<b>712</b>
of which replacement value determined based on a valuation model	–	6,985	7,436	–	62	712

<sup>1</sup> Relates to derivative financial instruments that qualify for hedge accounting.

<sup>2</sup> Including combined interest rate and foreign exchange swaps.

<sup>3</sup> Primarily commodity and energy products.

<sup>4</sup> Before impact of master netting agreements.

## Positive and negative replacement values before and after consideration of master netting agreements

end of	2016
<b>Positive and negative replacement values – before consideration of master netting agreements (CHF million)</b>	
Positive replacement values – trading and hedging	7,557
Negative replacement values – trading and hedging	8,611
<b>Positive and negative replacement values – after consideration of master netting agreements (CHF million)</b>	
Positive replacement values – trading and hedging <sup>1</sup>	3,597
Negative replacement values – trading and hedging <sup>1</sup>	938

<sup>1</sup> Netting includes counterparty exposure and cash collateral netting.

**Positive replacement values by counterparty type**

end of	2016
<b>Positive replacement values by counterparty type (CHF million)</b>	
Central clearing counterparties	1
Banks and securities dealers	222
Other counterparties <sup>1</sup>	3,374
<b>Positive replacement values</b>	<b>3,597</b>

<sup>1</sup> Primarily related to bilateral OTC derivative contracts with clients.

**Fair value hedges**

Financial year from August 1 to December 31	2016
<b>Gains/(losses) on derivative financial instruments recognized in income (CHF million)</b>	
Interest rate products	387
<b>Gains/(losses) on derivative financial instruments recognized in income</b>	<b>387</b>
<b>Gains/(losses) on hedged items recognized in income (CHF million)</b>	
Interest rate products	(400)
<b>Gains/(losses) on hedged items recognized in income</b>	<b>(400)</b>
<b>Details of fair value hedges (CHF million)</b>	
Net gains/(losses) on the ineffective portion	(13)

All gains/(losses) are recognized in net income/(loss) from trading activities and fair value option.

**Cash flow hedges**

Financial year from August 1 to December 31	2016
<b>Deferred unrealized gains/(losses) on derivative financial instruments related to cash flow hedges (CHF million)<sup>1</sup></b>	
<b>Balance at beginning of period</b>	<b>0</b>
<b>Transfer of assets from CS AG on August 1</b>	<b>51</b>
Interest rate products	(38)
<b>Gains/(losses) on derivative financial instruments deferred during reporting period</b>	<b>(38)</b>
Interest rate products <sup>2</sup>	8
Foreign exchange products <sup>2</sup>	(1)
<b>Deferred gains/(losses) on derivative financial instruments reclassified into income</b>	<b>7</b>
<b>Balance at end of period</b>	<b>6</b>
<b>Details of cash flow hedges (CHF million)</b>	
Net gains/(losses) on the ineffective portion <sup>2</sup>	0

<sup>1</sup> Included in the compensation account within other assets or other liabilities.

<sup>2</sup> Included in net income/(loss) from trading activities and fair value option.

As of December 31, 2016, the net gain/(loss) associated with cash flow hedges expected to be reclassified from other assets and other liabilities to the statement of income within the next 12 months was zero.

As of December 31, 2016, the maximum length of time over which CS Schweiz hedged its exposure to the variability in future

cash flows for forecasted transactions, excluding those forecasted transactions related to the payment of variable interest on existing financial instruments, was four years.

► Refer to "Use of derivative financial instruments and hedge accounting" in Note 3 – Risk management, use of derivative financial instruments and hedge accounting for further information.

## 14 Financial investments

end of	2016	
	Carrying value	Fair value
<b>Financial investments (CHF million)</b>		
Debt securities	269	269
of which available-for-sale	269	269
Equity securities	1	9
of which qualified participations <sup>1</sup>	–	–
<b>Financial investments</b>	<b>270</b>	<b>278</b>
of which securities eligible for repurchase transactions in accordance with liquidity regulations	0	–

<sup>1</sup> Represents participations held in financial investments with at least 10% in capital or voting rights.

## 15 Other assets and other liabilities

end of	2016	
	<b>Other assets (CHF million)</b>	
Compensation account		1,338
Coupons		64
Indirect taxes and duties		52
Other <sup>1</sup>		298
<b>Other assets</b>		<b>1,752</b>
<b>Other liabilities (CHF million)</b>		
Indirect taxes and duties		71
Accounts payable for goods and services		214
Other <sup>2</sup>		319
<b>Other liabilities</b>		<b>604</b>

<sup>1</sup> Includes receivables from settlement accounts, internal clearing accounts and other miscellaneous assets.

<sup>2</sup> Includes payables from settlement accounts, internal clearing accounts and other miscellaneous liabilities.

## 16 Assets pledged

end of	2016	
	Carrying value	Actual liabilities
<b>Assets pledged (CHF million) <sup>1</sup></b>		
Mortgage loans	21,131 <sup>2</sup>	6,802
<b>Assets pledged</b>	<b>21,131</b>	<b>6,802</b>

<sup>1</sup> Excludes assets pledged in connection with securities lending and borrowing, repurchase agreements and reverse-repurchase agreements.

<sup>2</sup> Includes a portfolio of mortgage loans with a carrying value of CHF 11,278 million as of December 31, 2016, which is pledged to Credit Suisse Hypotheken AG under the covered bond program of CS AG. The related actual liabilities of CHF 7,971 million as of December 31, 2016 are recorded in the financial statements of CS AG and recognized as a contingent liability by CS Schweiz.

► Refer to "Joint and several liability" in "Off-balance sheet transactions" for further information.

## 17 Pension plans

Liabilities due to own pension plans of CS Schweiz as of December 31, 2016 of CHF 521 million are reflected in various liability accounts in the balance sheet of CS Schweiz.

### Swiss pension plan

The employees of CS Schweiz are covered by the pension plan of the "Pensionskasse der Credit Suisse Group (Schweiz)" (the Swiss pension plan). All Swiss subsidiaries of the Group and a few companies that have close business and financial ties with the Group participate in this plan. The Swiss pension plan is

an independent self-insured pension plan set up as a trust and qualifies as a defined contribution plan (savings plan) under Swiss law.

The Swiss pension plan's annual financial statements are prepared in accordance with Swiss GAAP FER 26 based on the full population of covered employees. Individual annual financial statements for each participating company are not prepared. As a multi-employer plan with unrestricted joint liability for all participating companies, the economic interest in the Swiss pension plan's over- or underfunding is allocated to each participating company based on an allocation key determined by the plan.

### Employer contribution reserves

end of / in 2016	Employer contribution reserves – notional	Amount subject to waiver	Employer contribution reserves – net <sup>1</sup>	Increase/ (Release) of employer contribution reserves included in personnel expenses <sup>2</sup>
<b>CHF million</b>				
Swiss pension plan	14	0	14	0
<b>Total</b>	<b>14</b>	<b>0</b>	<b>14</b>	<b>0</b>

<sup>1</sup> In line with Swiss GAAP statutory accounting guidance, contributions to the employer contribution reserves are not recorded in the statutory balance sheet of CS Schweiz.

<sup>2</sup> For the financial year from August 1 to December 31, 2016.

### Pension plan economic benefit/(obligation), pension contributions and pension expenses

end of / in 2016	Over/ (Under) -funding	Economic benefit/ (obligation) recorded by CS Schweiz <sup>1</sup>	Pension contributions <sup>2</sup>	Pension expenses included in personnel expenses <sup>2</sup>
<b>CHF million</b>				
Swiss pension plan – status overfunded	440 <sup>3</sup>	–	61	61
<b>Total</b>	<b>440</b>	<b>–</b>	<b>61</b>	<b>61</b>

<sup>1</sup> In line with Swiss GAAP statutory accounting guidance, the economic benefit of CS Schweiz from its share in the overfunding of the Swiss pension plan is not recorded in the statutory balance sheet of CS Schweiz.

<sup>2</sup> For the financial year from August 1 to December 31, 2016.

<sup>3</sup> Represents the CS Schweiz share of 35.7% in the total overfunding of the Swiss pension plan of CHF 1,233 million as of December 31, 2016.

## 18 Issued structured products

end of 2016	Total
<b>Carrying value of issued structured products by underlying risk of the embedded derivative (CHF million)</b>	
<b>Interest rates</b>	
Structured products with own debt <sup>1</sup>	2
<b>Equity</b>	
Structured products with own debt <sup>1</sup>	395
<b>Foreign exchange</b>	
Structured products with own debt <sup>1</sup>	43
<b>Total</b>	<b>440<sup>2</sup></b>

<sup>1</sup> Reported as liabilities from other financial instruments held at fair value.

<sup>2</sup> All placed with CS AG.

## 19 Provisions and valuation adjustments

2016	Balance as of August 1	Transfer of assets from CS AG on August 1	Utilized for purpose	Reclassifications	Foreign exchange translation differences	Recoveries, interest past due	New charges to income statement	Releases to income statement	Balance as of December 31
<b>Provisions (CHF million)</b>									
Provisions for off-balance sheet default risks	0	20	0	(1)	0	0	3	(2)	20 <sup>1,2</sup>
Provisions for other business risks	0	22	(11)	0	0	0	2	0	13 <sup>3</sup>
Restructuring provisions	0	7	(2)	0	0	0	1	(2)	4 <sup>3</sup>
Other provisions	0	12	(9)	0	0	0	30	(3)	30 <sup>3,4</sup>
<b>Provisions</b>	<b>0</b>	<b>61</b>	<b>(22)</b>	<b>(1)</b>	<b>0</b>	<b>0</b>	<b>36</b>	<b>(7)</b>	<b>67</b>
<b>Valuation adjustments for default and country risks (CHF million)<sup>5</sup></b>									
<b>Valuation adjustments for default and country risks</b>	<b>0</b>	<b>292</b>	<b>(34)</b>	<b>1</b>	<b>3</b>	<b>4</b>	<b>56</b>	<b>(15)</b>	<b>307</b>
of which valuation adjustments for default risks from impaired receivables	0	182	(34)	1	3	4	49	(13)	192
of which valuation adjustments for inherent risks	0	110	0	0	0	0	7	(2)	115

<sup>1</sup> Partially discounted at rates of between 1.32% and 8.00%.

<sup>2</sup> Provisions are mainly related to irrevocable loan commitments and guarantees.

<sup>3</sup> Provisions are not discounted due to their short-term nature.

<sup>4</sup> Includes litigation provisions of CHF 29 million as of December 31, 2016.

<sup>5</sup> Changes in impaired loan classification during the period and related movements in valuation adjustments are reflected on a gross basis.

## 20 Composition of share capital, conversion and reserve capital

	December 31, 2016		July 31, 2016	
	Quantity	Total nominal value (CHF million)	Quantity	Total nominal value (CHF million)
<b>Share capital</b>				
Registered shares (at CHF 1 par value per share)	100,000,000	100 <sup>1</sup>	20,000,000	20
<b>Share capital</b>		<b>100</b>		<b>20</b>
<b>Conversion and reserve capital<sup>2</sup></b>				
Unlimited conversion capital (at CHF 1 par value per share) <sup>3</sup>	unlimited	unlimited	–	–
Reserve capital (at CHF 1 par value per share) <sup>4</sup>	200,000,000	200	–	–
of which used for capital increases	0	0	–	–
of which reserved for planned capital increases	0	0	–	–

<sup>1</sup> The dividend eligible capital equals the total nominal value. As of December 31, 2016, the total nominal value of registered shares was CHF 100,000,000 and fully paid.

<sup>2</sup> Represents authorized capital.

<sup>3</sup> For information on principal characteristics of unlimited conversion capital, refer to Article 5a in the Articles of Association of CS Schweiz.

<sup>4</sup> For information on principal characteristics of reserve capital, refer to Article 5b in the Articles of Association of CS Schweiz.

### Non-distributable reserves

As of December 31, 2016, the amount of non-distributable reserves in accordance with the Swiss Code of Obligations and the articles of association of CS Schweiz was CHF 50 million. Not reflected in this amount are reserves, which CS Schweiz is required to retain in order to meet the regulatory capital requirements as a going concern.

### Transactions with shareholders

► Refer to “Statement of changes in equity” and “Note 1 – Business activities, developments and subsequent events” for further information on transactions with shareholders.

## 21 Significant shareholders and groups of shareholders

end of	2016		
	Number of shares (million)	Total nominal value (CHF million)	Share- holding (%)
<b>Direct shareholders</b>			
Credit Suisse AG	100 <sup>1</sup>	100	100.00
<b>Indirect shareholders through Credit Suisse AG</b>			
Credit Suisse Group AG <sup>2</sup>	100	100	100.00
<b>Indirect shareholders through Credit Suisse Group AG<sup>3</sup></b>			
Chase Nominees Ltd. <sup>4</sup>	16	16	16.03
Nortrust Nominees Ltd. <sup>4</sup>	5	5	5.39
The Bank of New York Mellon <sup>4</sup>	5	5	5.14
Crescent Holding GmbH	5	5	5.10

<sup>1</sup> All shares with voting rights.

<sup>2</sup> Based on the percentage interest held in shares of CS AG as per the share register of CS AG on December 31 of the reporting period.

<sup>3</sup> Pro-forma numbers calculated based on the percentage interest held in Group shares as per the share register of the Group on December 31 of the reporting period. Includes shareholders registered as nominees or ADS depository bank.

<sup>4</sup> Nominee holdings in Group shares exceeding 2% are registered with a right to vote only if the nominee confirms that no individual shareholder holds more than 0.5% of the outstanding share capital or if the nominee discloses the identity of any beneficial owner holding more than 0.5% of the outstanding capital.

### Information received from shareholders of the Group not registered in the share register

In addition to the shareholdings registered in the Group's share register, the Group has obtained the following information directly from its shareholders and reported it to the SIX Swiss Exchange in accordance with the notification requirements of the Swiss Federal Act on Financial Market Infrastructure and Market Conduct in Securities and Derivatives Trading (FMIA). These shareholders may hold their shareholdings in Group shares through a nominee.

In a disclosure notification that the Group published on September 16, 2016, the Group was notified that as of September 8, 2016, The Olayan Group held 111.3 million shares, or 5.41%, of the registered Group shares issued as of the date of the notified transaction.

In a disclosure notification that the Group published on November 9, 2013, the Group was notified that as of November 4, 2013, Harris Associates L.P. held 81.5 million shares, or 5.17%, of the registered Group shares issued as of the date of the notified transaction. No further disclosure notification was received from Harris Associates L.P. relating to holdings of registered Group shares in 2016.

In a disclosure notification that the Group published on August 30, 2016, the Group was notified that as of August 25, 2016, Capital Group Companies, Inc. held in aggregate 99.2 million registered shares and American Depository Shares or a total of 5.051% voting rights of the registered Group shares issued as of the date of the notified transaction. In a disclosure notification that the Group published on January 28, 2017, the Group was

notified that Capital Group Companies, Inc.'s shareholdings and voting rights of Group shares had fallen below the 5% threshold as of January 25, 2017.

In 2016, the Group received disclosure notifications from Norges Bank and Qatar Holding LLC that their holdings of registered Group shares had fallen below the 5% threshold.

### Shareholders with a qualified participation

As of the date of the most recent notification received by the Group on November 11, 2016, Qatar Investment Authority (through Qatar Holding LLC) held approximately 4.93% of the Group's common shares and 12.81% purchase rights in the form of contingent convertible capital instruments, which will be converted into shares only in situations where the Group no longer meets specific regulatory capital requirements. As of the date of the most recent notification received by the Group on September 16, 2016, The Olayan Group (through Crescent Holding GmbH) held approximately 5.41% of the Group's common shares and 5.32% purchase rights consisting of 5.26% purchase rights in the form of contingent convertible capital instruments, which will be converted into shares only in situations where the Group no longer meets specific regulatory capital requirements, and 0.055% from short put options. In addition to CS AG, which is the direct shareholder of CS Schweiz, and the Group, which is the direct shareholder of CS AG, Qatar Investment Authority and The Olayan Group are shareholders with a qualified participation in accordance with Bank Law.

► Refer to "Note 23 – Amounts receivable from and amounts payable to related parties" for further information on shareholders with a qualified participation.

## 22 Shareholdings of the Board of Directors, Executive Board and employees and information on compensation plans

For the financial year from August 1 to December 31, 2016, CS Schweiz did not grant any awards under share-based compensation plans and did not have any option plans with outstanding options. In connection with the transfer of assets, CS Schweiz has assumed obligations for deferred share-based and cash compensation awards granted by CS AG or any other entity of Credit Suisse Group for members of the CS Schweiz Executive Board (Executive Board) and employees now employed by CS Schweiz.

Certain members of the Board of Directors of CS Schweiz (Board) also serve on the board of directors or executive board of the Group and CS AG. Compensation to such members of the Board is determined by the Group on the basis of their overall function and responsibilities in the Group and paid by different legal entities of the Group depending on work location, local contracts, laws and regulations. These Board members do not receive any additional Board member fees from CS Schweiz. Compensation for members of the Board, who are neither on the board of directors or the executive board of the Group or CS AG, will include an annual base fee in cash and chair fees paid in Group shares or a combination of cash and Group shares. Group shares will be blocked for four years. In 2016, no Group shares have been awarded to these Board members.

### Share-based awards outstanding

end of	2016	
	Number of share- based awards outstanding in million	Fair value in CHF million
<b>Share-based awards<sup>1</sup></b>		
Members of the Executive Board	0.9	13
Employees	3.4	50
<b>Share-based awards</b>	<b>4.3</b>	<b>63</b>

<sup>1</sup> All share-based compensation plans of CS Schweiz are plans based on virtual shares and either settled in Group shares or in cash on the basis of the fair value of the Group shares.

### Compensation plans

For 2016, CS Schweiz granted share awards, performance share awards and Contingent Capital Awards (CCA) as deferred compensation in February 2017.

Deferred compensation is awarded to employees with total compensation above CHF/USD 250,000 or the local currency equivalent. Compensation plans are designed to align the interests of employees and shareholders, as well as comply with the expectations of regulators that a substantial portion of variable compensation should be granted in this form.

For 2016, all share-based compensation plans of CS Schweiz are plans based on virtual shares and either settled in shares of the Group (Group shares) or in cash on the basis of the fair value of the Group shares.

### Share awards

For share awards granted in January 2016, each share award entitles the holder of the award to receive one Group share, subject to service conditions. Share awards vest over three years, such that the share awards vest equally on each of the three anniversaries of the grant date. The value of the share awards is solely dependent on the Group share price at the time of delivery.

On January 19, 2016, CS AG granted 1.0 million share awards with a total value of CHF 20 million and the related obligations subsequently transferred to CS Schweiz. The number of share awards granted to employees was determined by dividing the deferred component of variable compensation being granted as share awards by the average price of a Group share over the 12 business days ended January 18, 2016. The fair value of each share award was CHF 18.62, the Group share price on the grant date. While share awards granted between January 1, 2014 and December 31, 2015 did not include the right to receive dividend equivalents, share awards granted after January 1, 2016 include the right to receive dividend equivalents, upon vesting.

### Performance share awards

Members of the Executive Board, managing directors and all material risk takers and controllers (employees whose activities are considered to have a potentially material impact on the Group's risk profile) received a portion of their deferred variable compensation in the form of performance share awards. Performance share awards are similar to share awards, except that the full balance of outstanding performance share awards, including those awarded in prior years, are subject to explicit performance-related malus provisions.

Each performance share award granted entitles the holder of the award to receive one Group share. Performance share awards vest over three years, such that the performance share awards vest equally on each of the three anniversaries of the grant date. Performance share awards granted for 2015 are subject to a negative adjustment in the event of a divisional loss by the division in which the employees worked as of December 31, 2015, or a negative return on equity (ROE) of the Group, whichever results in a larger adjustment. For employees in corporate functions, the negative adjustment only applies in the event of a negative ROE of the Group and is not linked to the performance of the divisions. The basis for the ROE calculation may vary from year to year, depending on the Compensation Committee's determination for the year in which the performance shares are granted.

Outstanding performance share awards granted in previous years are subject to a negative adjustment in the event of a negative strategic ROE of the Group, which is calculated based on Core Results, adjusted for the goodwill impairment charge related to the re-organization of the former Investment Banking division.



On January 19, 2016, CS AG granted 0.7 million performance share awards with a total value of CHF 15 million and the related obligations subsequently transferred to CS Schweiz. The number of performance share awards granted to employees was determined by dividing the deferred component of variable compensation being granted as performance share awards by the average price of a Group share over the 12 business days ended January 18, 2016. The fair value of each performance share award was CHF 18.62, the Group share price on the grant date. While performance share awards granted between January 1, 2014 and December 31, 2015 did not include the right to receive dividend equivalents, performance share awards granted after January 1, 2016 include the right to receive dividend equivalents, upon vesting.

The amount of the potential negative adjustment for a loss at the divisional level is applicable to all outstanding performance share awards (including the short-term incentive, STI) awards of Executive Board members who lead business divisions and is disclosed in the following table.

#### Potential downward adjustments of performance share and STI awards

##### Downward adjustment if division incurs a loss

Division pre-tax loss (in CHF billion)	Adjustment on award balance (in %)
(1.00)	(15%)
(2.00)	(30%)
(3.00)	(45%)
(4.00)	(60%)
(5.00)	(75%)
(6.00)	(90%)
(6.67)	(100%)

#### Contingent Capital Awards

CCA were granted in January 2016, 2015 and 2014 as part of 2015, 2014 and 2013 deferred variable compensation and have rights and risks similar to those of certain contingent capital instruments issued by the Group in the market. CCA provide a conditional right to receive semi-annual cash payments of interest equivalents at a rate of 4.23%, 4.85% and 4.75% per annum over the six-month Swiss franc London Interbank Offered Rate (LIBOR) or 5.41%, 5.75% and 5.33% per annum over the six-month US dollar LIBOR, for Swiss franc and US-denominated awards for 2016, 2015 and 2014, respectively, until settled. The rate was set in line with market conditions at the time of grant and existing high-trigger and low-trigger contingent capital instruments that

the Group has issued. For CCA granted in January 2016, employees who received compensation in Swiss francs received CCA denominated in Swiss francs and all other employees received CCA denominated in US dollars.

CCA are scheduled to vest on the third anniversary of the grant date and will be expensed over three years from the grant date. However, because CCA qualify as going-concern loss-absorbing capital of the Group, the timing and form of distribution upon settlement is subject to approval by FINMA. At settlement, employees will receive either a contingent capital instrument or a cash payment based on the fair value of the CCA. The fair value will be determined by the Group. In the case of a cash settlement, the CCA award currency denomination will be converted into the local currency of each respective employee. The Group intends to grant CCA as one of its annual deferred variable compensation awards in future years.

CCA have loss-absorbing features such that prior to settlement, the principal amount of the CCA would be written down to zero if any of the following trigger events were to occur:

- the Group's reported common equity tier 1 (CET1) ratio falls below 7%; or
- FINMA determines that cancellation of the CCA and other similar contingent capital instruments is necessary, or that the Group requires public sector capital support, in either case to prevent it from becoming insolvent or otherwise failing.

On January 19, 2016, CS AG awarded CHF 6 million of CCA that are expensed over the three-year period from the grant date and for which the related obligations were subsequently transferred to CS Schweiz. CCA were awarded as deferred variable compensation to managing directors and directors.

#### Other cash awards

Other cash awards include several smaller deferred cash compensation plans.

#### Deferred compensation expenses

Financial year from August 1 to December 31	2016
<b>Deferred compensation expense (CHF million)</b>	
Share awards <sup>1</sup>	13
Performance share awards	10
Contingent Capital Awards (cash awards)	4
Contingent Capital share awards	2
Other cash awards	2
<b>Deferred compensation expense</b>	<b>31</b>

<sup>1</sup> Includes special share awards.

**23 Amounts receivable from and amounts payable to related parties**

end of	2016	
	Amounts receivable	Amounts payable
<b>Amounts receivable from and/or payable to related parties (CHF million)</b>		
Shareholders with a qualified participation	2,527	15,961
Group companies	25	8
Affiliated companies	7,968	2,192
Members of governing bodies <sup>1</sup>	56	48

<sup>1</sup> Includes both the governing bodies of CS Schweiz and the governing bodies of its direct and indirect holding companies CS AG and Credit Suisse Group AG. Governing bodies include members of the Board of Directors, the Executive Board and the statutory auditors and companies controlled by members of each of these bodies.

**Significant off-balance sheet transactions**

As part of the normal course of business, CS Schweiz issues guarantees, loan commitments and enters into other agreements with group companies which are recorded as off-balance sheet transactions by CS Schweiz. As of December 31, 2016, CS Schweiz had contingent liabilities of CHF 8,203 million, substantially all with its shareholder CS AG.

**Additional information on related party transactions**

Transactions (such as securities transactions, payment transfer services, borrowings and compensation for deposits) with related parties are carried out on an arm's length basis.

► Refer to "Off-balance sheet transactions", "Statement of changes in equity" and "Note 1 – Business activities, developments and subsequent events" for further information on related party transactions.

**STS Trading**

On November 20, 2016, with retrospective effect between the parties as of August 1, 2016, CS Schweiz entered into a contractual relationship with CS AG. The purpose of this contractual relationship is to collaboratively operate the Swiss portion of the STS Trading business while acting independently, with each of CS Schweiz and CS AG acting in its own name externally and not in joint name. The collaboration does not have legal effects for external parties and has been entered into for a fixed minimum period of three years, renewable in three year increments. Net profits of the collaboration are shared equally between CS AG and CS Schweiz. Net losses are shared equally between CS AG and CS Schweiz, with the maximum loss participation for CS Schweiz limited to 50% of the aggregated net profits reported by the parties with respect to the collaboration for the preceding three financial years. For the three financial years until December 31, 2018, including the first financial year from August 1 to December 31, 2016, the maximum loss participation is determined by a fixed amount for the first year, and by a combination of a fixed amount and a variable amount depending on prior period net profits with respect to the collaboration for the following two years.

## 24 Total assets by country rating

end of	2016	
Internal ratings <sup>1</sup>	CHF million <sup>2</sup>	%
<b>Total assets by internal country rating (CHF million)</b>		
AAA	19,012	8.9%
AA	6,500	3.1%
A	983	0.5%
BBB	1,259	0.6%
BB	325	0.2%
B	235	0.1%
CCC	323	0.2%
CC	1	0.0%
Foreign assets	28,638	13.4%
Domestic assets	184,397	86.6%
<b>Total assets</b>	<b>213,035</b>	<b>100.0%</b>

<sup>1</sup> Internal ratings are calibrated to the long-term issuer credit ratings of Standard & Poor's for the respective sovereigns. Internal country ratings may differ from Standard & Poor's respective country ratings.

<sup>2</sup> Net balance sheet exposure by country rating of risk domicile.

## 25 Fiduciary transactions

end of	2016	
<b>Fiduciary transactions (CHF million)</b>		
Fiduciary placements with third-party institutions		2,202
Fiduciary placements with group companies and affiliated institutions		5,361
<b>Fiduciary transactions</b>		<b>7,563</b>

## 26 Assets under management

### Assets under management

Assets under management include assets for which CS Schweiz provides investment advisory or discretionary asset management services, investment fund assets and assets invested in other investment-fund-like pooled investment vehicles managed by CS Schweiz. The classification of assets under management is conditional upon the nature of the services provided by CS Schweiz and the clients' intentions. Assets are individually assessed on the basis of each client's intentions and objectives and the nature of the banking services provided to that client. In order to be classified as assets under management, CS Schweiz must currently or in the foreseeable future expect to provide a service where the involvement of CS Schweiz's banking or investment expertise (e.g., as asset manager or investment advisor) is not purely executional or custodial in nature.

Assets under custody are client assets held mainly for execution-related or safekeeping/custody purposes only and therefore are not considered assets under management since CS Schweiz does not generally provide asset allocation or financial advice.

Assets of corporate clients and public institutions that are used primarily for cash management or transaction executional purposes for which no investment advice is provided are classified as commercial assets or assets under custody and therefore do not qualify as assets under management.

For the purpose of classifying assets under management, clients with multiple accounts are assessed from a holistic client perspective. Accounts that are clearly separate from the remainder of the client relationship and represent assets held for custody purposes only are not included as assets under management.

The initial classification of the assets may not be permanent as the nature of the client relationship is reassessed on an on-going basis. If changes in client intent or activity warrant reclassification between client asset categories, the required reclassification adjustments are made immediately when the change in intent or activity occurs.

Reclassifications between assets under management and assets held for transaction-related or custodial purposes result in corresponding net asset inflows or outflows.

**Assets under management**

end of	2016
<b>Assets under management (CHF billion)</b>	
Assets with discretionary mandates	106.5
Other assets under management	408.3
<b>Assets under management (including double counting)</b>	<b>514.8</b>
of which double counting	–

**Changes in assets under management**

	2016
<b>Changes in assets under management (CHF billion)</b>	
<b>Assets under management as of August 1</b>	<b>0.0</b>
Net new assets/(Net asset outflows)	(0.4)
Market movements, interest, dividends and foreign exchange	7.1
of which market movements, interest and dividends <sup>1</sup>	3.0
of which foreign exchange	4.1
Other effects	508.1 <sup>2</sup>
<b>Assets under management as of December 31</b>	<b>514.8</b>

<sup>1</sup> Net of commissions and other expenses and net of interest expenses charged.

<sup>2</sup> Represents assets under management acquired in connection with the transfer of assets from CS AG to CS Schweiz on November 20, 2016, with retrospective effect as of August 1, 2016.

**Net new assets**

Net new assets measure the degree of success in acquiring assets under management or increasing assets under management through warranted reclassifications. The calculation is based on the direct method, taking into account individual cash payments, security deliveries and cash flows resulting from loan increases or repayments. Interest and dividend income credited to clients and

commissions, interest and fees charged for banking services are not taken into account when calculating net new assets, as such charges are not directly related to the success of CS Schweiz in acquiring assets under management. Similarly, changes in assets under management due to currency and market volatility as well as asset inflows and outflows due to the acquisition or divestiture of businesses are not part of net new assets.

# Proposed appropriation of retained earnings and capital distribution

## Proposed appropriation of retained earnings

end of	2016
<b>Retained earnings (CHF million)</b>	
Retained earnings carried forward from July 31, 2016	0
Net profit for the period from August 1 to December 31, 2016	70
<b>Retained earnings available for appropriation</b>	<b>70</b>
Dividend	(70)
<b>Retained earnings to be carried forward</b>	<b>0</b>

## Proposed distribution out of capital contribution reserves

end of	2016
<b>Capital contribution reserves (CHF million) <sup>1</sup></b>	
<b>Balance before distribution</b>	<b>14,550</b>
Distribution	(148)
<b>Balance after distribution</b>	<b>14,402</b>

<sup>1</sup> Capital contribution reserves represent legal capital reserves.

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### Cautionary statement regarding forward-looking information

This report contains statements that constitute forward-looking statements. In addition, in the future we, and others on our behalf, may make statements that constitute forward-looking statements. Such forward-looking statements may include, without limitation, statements relating to the following:

- our plans, objectives or goals;
- our future economic performance or prospects;
- the potential effect on our future performance of certain contingencies; and
- assumptions underlying any such statements.

Words such as “believes”, “anticipates”, “expects”, “intends” and “plans” and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. We do not intend to update these forward-looking statements except as may be required by applicable securities laws.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other outcomes described or implied in forward-looking statements will not be achieved. We caution you that a number of important factors could cause results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- the ability to maintain sufficient liquidity and access capital markets;
- market volatility and interest rate fluctuations and developments affecting interest rate levels;
- the strength of the global economy in general and the strength of the economies of the countries in which we conduct our operations, in particular the risk of continued slow economic recovery or downturn in the US or other developed countries or in emerging markets in 2017 and beyond;
- the direct and indirect impacts of deterioration or slow recovery in residential and commercial real estate markets;
- adverse rating actions by credit rating agencies in respect of us, sovereign issuers, structured credit products or other credit-related exposures;
- the ability to achieve our strategic objectives, including cost efficiency, net new asset, pre-tax income/(loss), capital ratios and return on regulatory

capital, leverage exposure threshold, risk-weighted assets threshold and other targets and ambitions;

- the ability of counterparties to meet their obligations to us;
- the effects of, and changes in, fiscal, monetary, exchange rate, trade and tax policies, as well as currency fluctuations;
- political and social developments, including war, civil unrest or terrorist activity;
- the possibility of foreign exchange controls, expropriation, nationalization or confiscation of assets in countries in which we conduct our operations;
- operational factors such as systems failure, human error, or the failure to implement procedures properly;
- the risk of cyberattacks on our business or operations;
- actions taken by regulators with respect to our business and practices and possible resulting changes to our business organization, practices and policies in countries in which we conduct our operations;
- the effects of changes in laws, regulations or accounting policies or practices in countries in which we conduct our operations;
- the potential effects of proposed changes in our legal entity structure;
- competition or changes in our competitive position in geographic and business areas in which we conduct our operations;
- the ability to retain and recruit qualified personnel;
- the ability to maintain our reputation and promote our brand;
- the ability to increase market share and control expenses;
- technological changes;
- the timely development and acceptance of our new products and services and the perceived overall value of these products and services by users;
- acquisitions, including the ability to integrate acquired businesses successfully, and divestitures, including the ability to sell non-core assets;
- the adverse resolution of litigation, regulatory proceedings, and other contingencies; and
- other unforeseen or unexpected events and our success at managing these and the risks involved in the foregoing.

We caution you that the foregoing list of important factors is not exclusive. When evaluating forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events.



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